

# City of Rockville Retirement Board

August 27, 2010

**PRESENT:** Alex Espinosa, Chairperson; Mark Pierzchala, Councilmember; Anita McCombs, AAME Representative; John Tusing for Kyle France, Union Representative; Carlos Vargas, for City Manager. Also in attendance were Gavin Cohen, Executive Secretary to the Board; Tim Peifer, Financial Systems Manager; as well as Amy Heyel, Segal Advisors.

**ABSENT:** Cpl. Chris Peck, FOP Representative.

The meeting commenced at 10:00 a.m. with introductions. Councilmember Pierzchala inquired as to what the Board is doing with the Citizen Representative vacancy. Mr. Vargas responded that there have not been any applications. Mr. Cohen said that the applications that they had were not residents. Councilmember Pierzchala said that he would see what he could do to alleviate this.

## **I. Approval of Minutes July 9, 2010:**

Councilmember Pierzchala moved to approve the minutes and Mr. Vargas seconded. Councilmember Pierzchala said that he noticed two thumbs up at the bottom of the notes that did not appear to go with an item and it was decided to take remove them. All were in favor.

## **II. Thrift Plan Selection:**

Mr. Cohen informed the Board that several of the funds with Principal had been put on the Board watch list. The decision to replace funds was put on hold while looking for a vendor. A list of funds provided by Prudential had been received and discussed by Staff and Segal. Ms. Heyel will present the fund selection for investment options for Board approval.

Ms. Heyel presented the line up of investment options for the Thrift plan once it converts to Prudential on January 1, 2011. The proposed investment line up presentation outlined the investment categories to be included under the new structure, where Prudential will replace Principal as record keeper. Ms. Heyel noted that the Balanced Fund category would be eliminated and the assets in that fund would be mapped to the lifecycle category using an algorithm that calculates an employees' normal retirement age based on the date of birth on file. She noted that if no date of birth were on file for an employee, the Board would have to elect a default option for the Balanced Fund mapping. She suggested mapping the default money to the most conservative of the lifecycle series (typically the income fund). She also noted that an inflation hedging category (Treasury Inflation Protected Bond Fund), a global equity fund, an emerging markets equity fund, a sector fund (IT and Communications), and a REIT fund (Real Estate Investment Trust) would be added. The Board then discussed with Ms. Heyel the investment options that were selected for each category. Ms. Heyel noted that the money market option, the Prudential Protection Fund, was a new product from Prudential and was not yet funded by clients. She added that the money invested in the Protection fund would reside in Prudential's General Account and provide up to \$240,000 of individual FDIC insurance. They continued to discuss the other options in the remaining categories. In conclusion, Ms. Heyel stated that the Fund had a well-diversified fund line up, which in her opinion, was superior to the current one. She reminded the Board that the overall fee for the DB and DC plans would be 31 basis points and represented a significant cost savings to participants. Councilmember Pierzchala made a motion to approve this line up to be effective January 1, 2011. Mr. Vargas seconded it. All were in favor.

## **III. Performance Review 2nd Quarter End June 30, 2010:**

Ms. Heyel reviewed the Pension Plan's second quarter report and noted the market value was approximately \$50m and the assets were allocated in line with the long-term targets. She noted that the international and real estate segments were slightly underweight while the fixed income segment was slightly overweight. She commented that the over/under weights were solely due to market improvement. She discussed with the Board the change in assets over the three-month period, noting a beginning value of \$53.9m, withdrawals and expenses of \$0.7m, income of \$0.1m and investment losses of \$3.3m. The dollar

change equated to a -6.0% decline vs. the benchmark loss of -5.8%. In contrast, she noted the strong one-year absolute and relative performance of 11.7% vs. 9.5%. She discussed with the Board the performance of the individual segments, noting the passive segments had performed as expected. The Board was particularly concerned with the lack of relative improvement from the Manning and Napier Small Cap Account. However, it was understood that the markets had been very volatile, and in some opinions extreme, and that the tenure of the manager was short (just over two years). The Board elected to continue to closely monitor the performance of the Manning and Napier small cap account with a thorough due diligence review upon its third year anniversary in March of 2011. The relevance of the three years was that it was believed to be the short end of a full business cycle, which is the time period outlined in the investment policy for monitoring performance. Ms. Heyel stated the Prudential real estate portfolio posted its first positive return in several quarters, up 7.9% vs. the Index gain of 3.9%. The International equity segment continued its relative turnaround. Although down 12.8%, it bettered its benchmark loss of 14.0%.

#### **IV Trust Performance Review 2nd Quarter end June 30, 2010:**

Mr. Cohen reviewed the performance of the Retirement Benefit Trust over the past quarter. He noted for the Board the underperformance of the Manning and Napier Fund. The fund performance would be watched closely similarly to Manning and Napier Fund on the Pension watch.

#### **V. Plan Design Study:**

A call was placed to Mr. Clark, actuary from Principal. He gave a presentation to consider benefit changes for new participants, such as normal retirement age and vesting, (administrative group only). The Board asked that the same type of analysis be conducted for the Union and FOP Plan. Councilmember Pierzchala and Mr. Cohen thanked Mr. Clark for his presentation.

Mr. Cohen set the date for the next meeting to be November 19, 2010, a week before Thanksgiving. He would like to establish the meeting calendar for 2011.

Councilmember Pierzchala made a motion to adjourn at 12:20. Mr. Espinosa seconded. All were in favor.